

The Rise of Buy Now, Pay Later (BNPL)

Buy Now, Pay Later :

Buy Now, Pay Later (BNPL) is a solution for point-of-sale financing that has grown increasingly popular in recent years, particularly among the younger generations.

BNPL solutions emerged in the early 2010s to address the pain points around financing — namely, complexity and credit cards with high fees and APRs.

- Buy now, pay later is a type of short-term financing.
- Consumers can make purchases and pay for them over time after an up-front payment.
- Buy now, pay later plans typically charge no interest.
- Compared to traditional credit cards and personal loans, BNPL loans are fairly easy for consumers to get approved for.
- BNPL generally won't affect your credit score unless you make late payments or fail to pay.



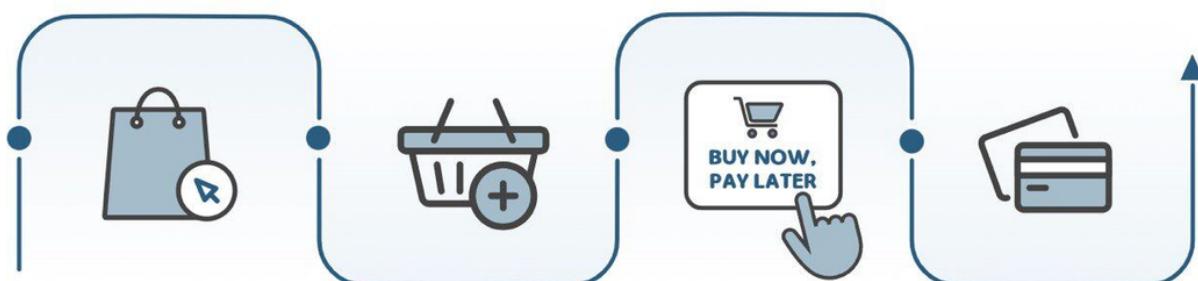
How Buy Now, Pay Later (BNPL) Works :

Buy now, pay later programs have different terms and conditions. They generally offer short-term loans with fixed payments, no interest, and no additional charges. This means you know your payment amounts up front, and each payment will be the same. You can use a BNPL app to make the purchase, or you may have BNPL options through your credit card.

With BNPL, you can make a purchase at a participating retailer and opt for buy now, pay later at checkout. If approved, you make a small down payment, such as 25% of the overall purchase amount. You then pay off the remaining amount in a series of interest-free instalments, usually over a few weeks or months.

Payments can be deducted automatically from your debit card, bank account, or credit card. You may also be able to pay via check or bank transfer in some cases, although the Consumer Financial Protection Bureau (CFPB) says that most BNPL lenders give consumers no choice other than autopay.

The Buy Now, Pay Later Process



SHOP

Customers browse and fill their carts with products they want to buy.

CHECKOUT

Determine the total purchase value with taxes and shipping.

SELECT BNPL

Rather than a credit or debit card, choose the buy now, pay later option as the payment method.

PAY LATER

Pay for your purchase over time in a series of installments.

BNPL Consumer Behaviour Analysis:

During the post covid, the BNPL market has overgrown due to increasing consumer awareness and aversion to high-interest rates, particularly among younger generations.

Buy Now, Pay Later (BNPL) is significantly influencing consumer buying behaviour as it offers a range of benefits and conveniences. Consumers are enticed to make more frequent purchases and explore higher-priced items with the option to split payments into manageable instalments, resulting in increased purchase frequency and larger basket sizes.

The services also reshape consumer behaviour across generations, with younger consumers showing greater adoption and willingness to spend. Younger generations like Millennials and Generation Z are more receptive to BNPL due to its flexibility and convenience, leading to increased impulse buying and higher spending.

Reasons of BNPL Rapid Growth :

Buy Now, Pay Later (BNPL) payment methods have experienced significant growth in recent years, driven by shifts in consumer preferences, the rise of e-commerce, and the availability of fintech services offering BNPL options.

Benefit for Customer Prospective :

Rapid Adoption: BNPL services have seen widespread adoption among consumers, particularly younger demographics, who appreciate the flexibility and convenience of spreading payments over time without incurring traditional credit card interest fees.

Expansion of Services: BNPL providers have expanded their offerings beyond online purchases to include in-store shopping, making it easier for consumers to use these payment methods across various retail channels.

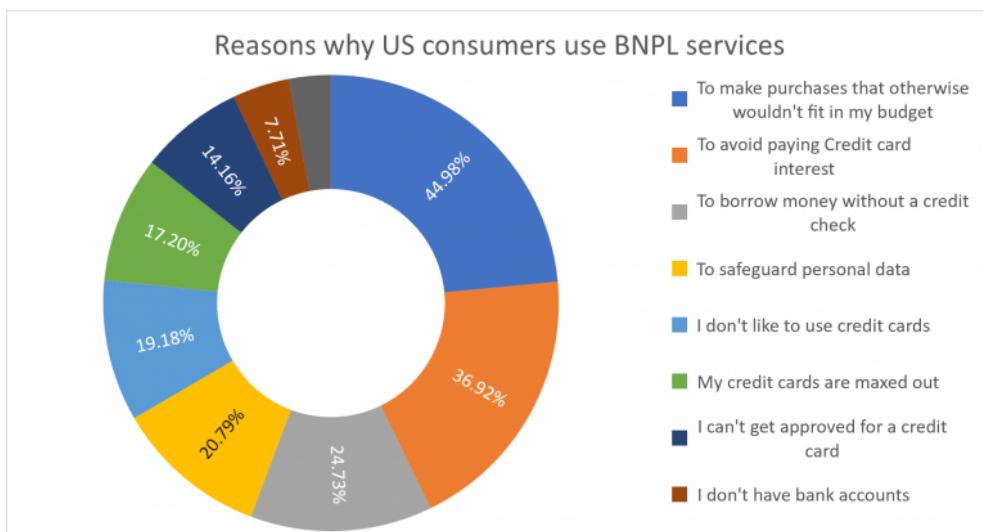
Shift in Consumer Behaviour: BNPL has influenced how people shop by encouraging impulse purchases and enabling consumers to afford items that may have been out of reach with traditional payment methods. This has led to changes in spending habits and purchasing behaviour.

Financial Flexibility: BNPL offers consumers greater financial flexibility by allowing them to spread payments over time, making it easier to manage expenses and budget effectively. However, it also carries the risk of overspending and accumulating debt if not used responsibly.

Impact on Traditional Credit: The rise of BNPL has disrupted the traditional credit card industry, with some consumers opting for BNPL services instead of traditional credit cards due to their lower fees and more transparent terms.

Credit card use is on the decline :

Since the beginning of the COVID-19 pandemic, customers have been slowly moving away from the dominance of traditional credit cards, with factors such as high-interest rates, declining credit limits and poorly implemented rewards programs exacerbating the issue.



The decline of credit cards presents an opportunity for alternative payment methods, including Buy Now, Pay Later.

It's a more affordable way to finance purchases :

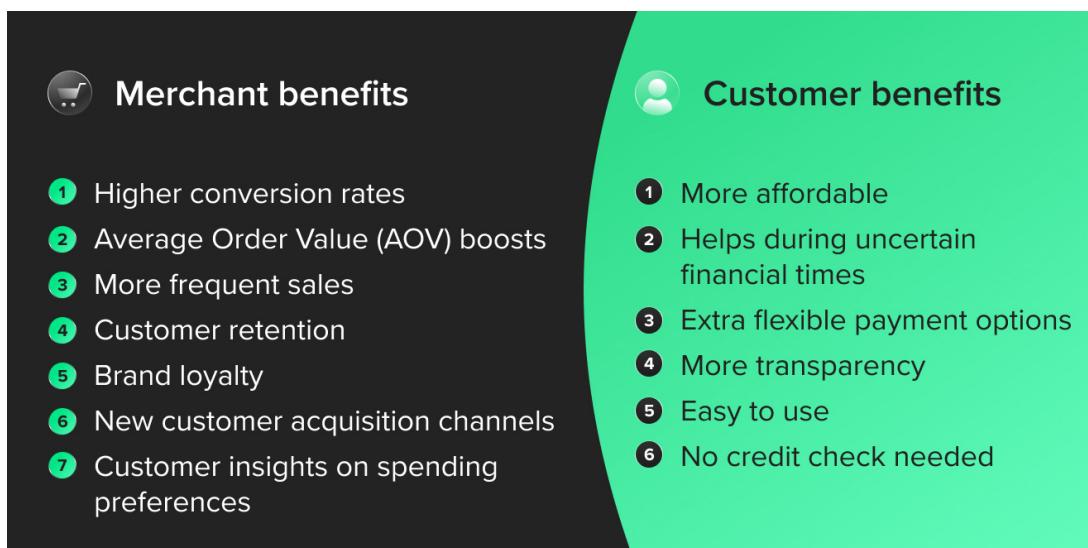
Unlike credit cards — which make their money off of interest rates and late fees — the BNPL options provide a more affordable payment option since they typically have limited fees and interest rates. Buy now, pay later is a more convenient and flexible way to buy.

For consumers who are wary of credit cards and typically don't carry cash, BNPL offers a convenient, flexible payment option.

BNPL Options Benefits Retailers & Customers:

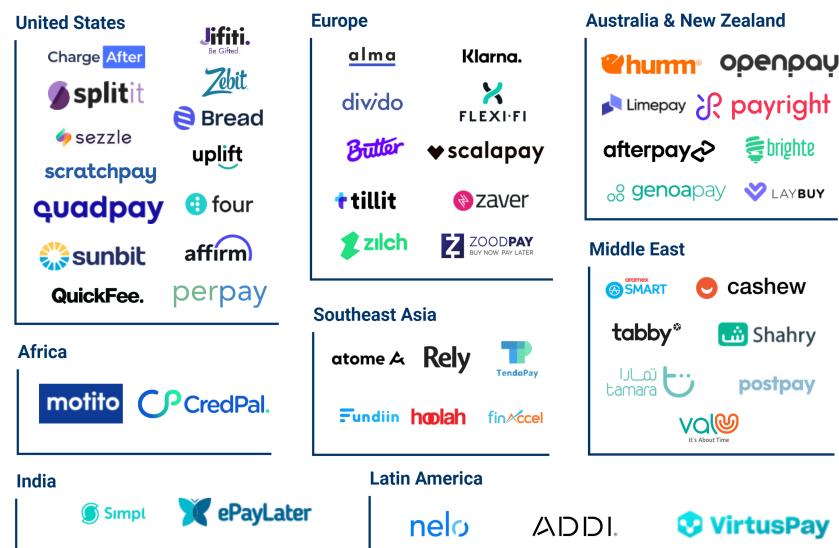
Retailers want to get paid right away, even if their customers want to spread the cost. A BNPL supplier like Klarna, Affirm or Sezzle will immediately transfer funds to the retailer upon a customer's purchase.

Here are some of the specific benefits retailers enjoy by implementing a BNPL option:



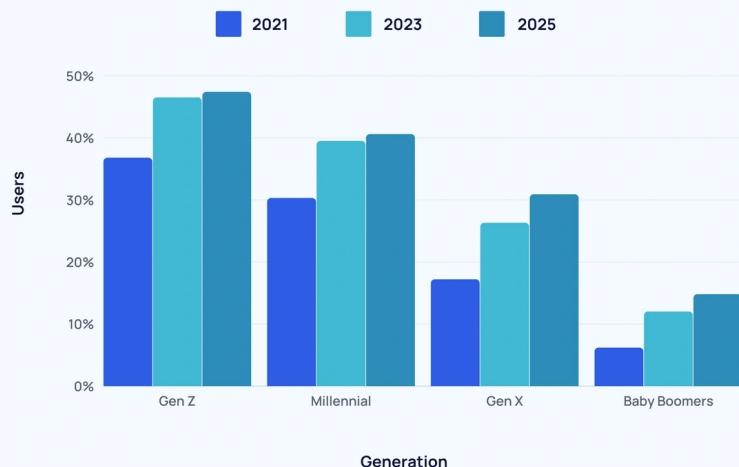
BNPL Providers :

Buy now, pay later (BNPL) competitive landscape



Segment of the users most attracted by BNPL:

Almost half of Gen Z are expected to use BNPL by 2025



Who Is Most Likely To Use BNPL?

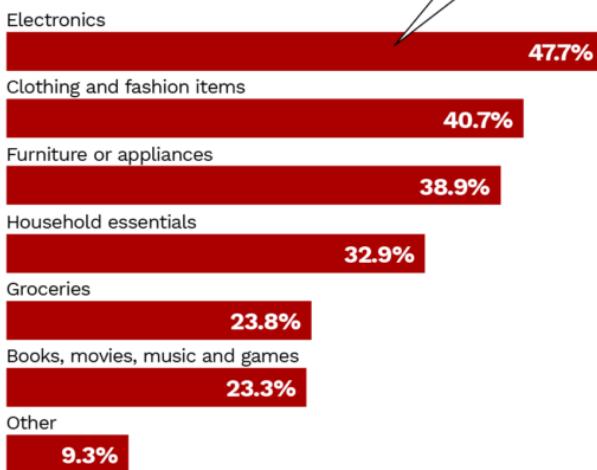


- Younger Consumers:** Millennials and Gen Z consumers are often early adopters of BNPL services. They are tech-savvy, value convenience, and are more open to alternative payment methods.
- Online Shoppers:** Customers who frequently shop online are more likely to be attracted to BNPL services. These individuals appreciate the flexibility and convenience of spreading payments over time, especially for larger purchases.
- Budget-Conscious Consumers:** Individuals who are budget-conscious and prefer to manage their cash flow effectively may be drawn to BNPL services as a way to make purchases without impacting their immediate finances.
- Fashion and Beauty Enthusiasts:** Segments of consumers who are passionate about fashion, beauty, and lifestyle products often utilize BNPL services to affordably purchase trendy and high-end items without the upfront cost.
- Emerging Market Consumers:** In emerging markets where access to credit may be limited, BNPL services provide an alternative financing option for consumers to make purchases beyond their immediate means.
- Small Business Owners:** Small business owners and entrepreneurs may use BNPL services to manage cash flow and finance inventory purchases, especially during periods of growth or seasonal demand.
- Luxury and High-Ticket Item Buyers:** Customers interested in luxury goods or high-ticket items may use BNPL services to spread out the cost of their purchases over time, making luxury items more accessible.
- Travellers:** Travel enthusiasts may utilize BNPL services to book flights, accommodation, and experiences, allowing them to spread the cost of their travel expenses over several months.
- Students and Young Professionals:** Individuals in the early stages of their careers, such as students and young professionals, may rely on BNPL services to afford essential items, educational expenses, or professional development tools.
- Financially Underserved Populations:** Consumers with limited access to traditional banking and credit options, such as those with thin credit files or subprime credit scores, may turn to BNPL services as a convenient and accessible payment solution.

Categories growing most using BNPL :

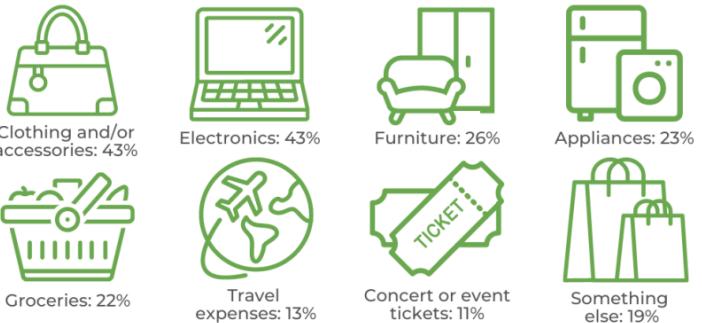
What consumers buy with BNPL

Multiple choices allowed



THE FINANCIAL BRAND © May 2022 SOURCE: Ascent

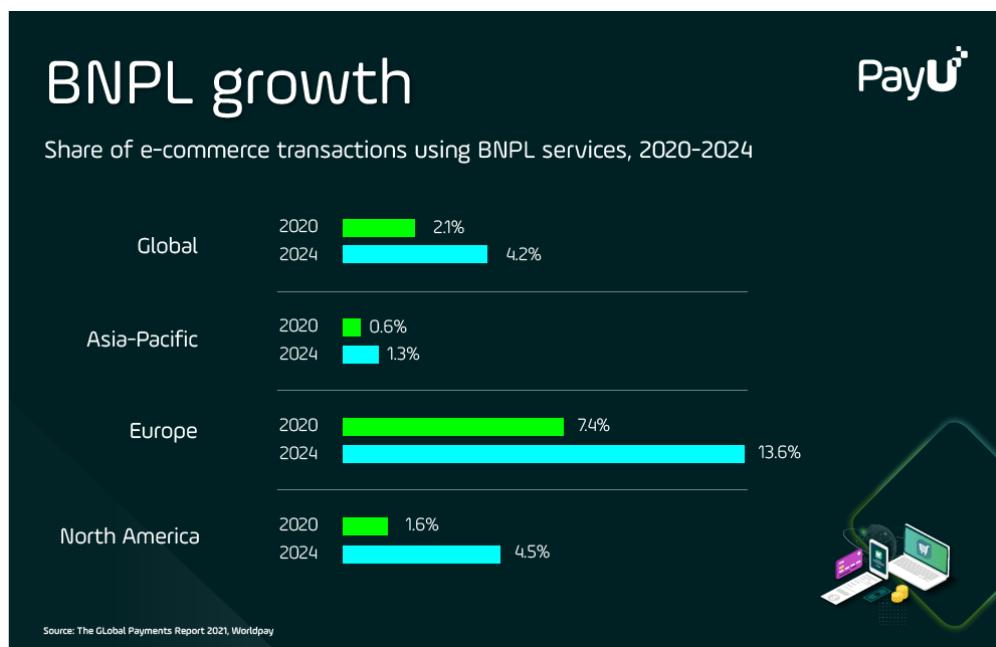
WHAT SHOPPERS BOUGHT USING BNPL



February 2023 U.S. News survey of 1,201 Americans who have used BNPL at least once in the past 12 months.



BNPL impact on Business :



Comparing Indian companies offering Buy Now, Pay Later (BNPL) services with those in the global market :

It involves evaluating various factors such as market penetration, business models, regulatory environments, customer demographics, and technological advancements. Here's a comparative analysis:

1. Market Penetration:

- Indian Companies:** Indian BNPL providers such as Simpli, ZestMoney, and LazyPay have seen significant growth in recent years, driven by increasing digital adoption and rising demand for convenient payment options.

- **Global Companies:** Internationally, BNPL services are more mature and widely adopted, with prominent players like Afterpay (Australia), Klarna (Sweden), and Affirm (USA) dominating the market. These companies have a larger presence and customer base across multiple regions.

2. Business Models:

- **Indian Companies:** Indian BNPL companies typically offer installment-based payment plans for online and offline purchases, catering to both e-commerce and retail sectors. They often partner with merchants to integrate BNPL options directly into their checkout processes.
- **Global Companies:** Global BNPL providers offer similar installment-based payment solutions but may also include additional features such as interest-free financing, virtual cards, and loyalty programs. They focus on enhancing the overall shopping experience and driving customer engagement across various channels.

3. Regulatory Environment:

- **Indian Companies:** BNPL services in India are subject to regulations set by the Reserve Bank of India (RBI) and other relevant authorities. Companies must comply with guidelines related to customer data protection, transaction security, and fair lending practices.
- **Global Companies:** BNPL regulations vary by country, with some jurisdictions implementing stricter oversight and consumer protection measures than others. Companies operating in global markets must navigate a complex regulatory landscape and ensure compliance with local laws and regulations.

4. Customer Demographics:

- **Indian Companies:** Indian BNPL users include a diverse demographic range, including millennials, urban consumers, and first-time digital buyers. The adoption of BNPL services is driven by factors such as convenience, affordability, and accessibility.
- **Global Companies:** BNPL services have a broad appeal across different age groups and income levels in global markets. However, they may have a higher penetration among younger demographics and tech-savvy consumers who value flexibility and seamless payment experiences.

5. Technological Advancements:

- **Indian Companies:** Indian BNPL providers leverage innovative technologies such as machine learning, data analytics, and artificial intelligence to assess credit risk, personalize offers, and streamline the payment process. They focus on enhancing user experiences and optimizing decision-making algorithms.
- **Global Companies:** Global BNPL firms are at the forefront of technological innovation, investing heavily in advanced analytics, digital platforms, and financial infrastructure. They continuously iterate their products and services to stay competitive and meet evolving consumer needs.

Advantages and disadvantages for consumers using the Buy Now Pay Later (BNPL) payment method:

Advantages for Consumers:

- **Flexibility:** BNPL allows consumers to spread the cost of purchases over time, making expensive items more affordable.

- **Convenience:** It offers a quick and easy checkout process, often requiring minimal information.
- **Interest-Free Periods:** Many BNPL providers offer interest-free periods, allowing consumers to pay off purchases without incurring additional fees.
- **Budgeting:** It can help consumers budget more effectively by breaking down payments into manageable installments.
- **No Credit Checks:** Unlike traditional credit cards, BNPL services may not require a credit check, making them accessible to individuals with varying credit histories.

Disadvantages for Consumers:

- **Overspending:** BNPL can encourage impulse buying and lead to overspending if consumers are not careful with their purchases.
- **Fees and Interest:** Late payments or missed installments may result in fees or interest charges, potentially increasing the overall cost of purchases.
- **Debt Accumulation:** Continuous use of BNPL services without careful budgeting can lead to debt accumulation and financial strain.
- **Credit Score Impact:** While some BNPL providers don't report missed payments to credit bureaus, others may, potentially affecting consumers' credit scores.
- **Limited Protection:** Consumers may have limited recourse if disputes arise with merchants or if items are faulty or not as described.

Advantages and disadvantages for Companies using the Buy Now Pay Later (BNPL) payment method:

Advantages for Companies:

- **Increased Sales:** BNPL can boost sales by making purchases more appealing and affordable to consumers.
- **Higher Conversion Rates:** Offering BNPL at checkout can reduce cart abandonment rates and increase conversion rates.
- **Competitive Advantage:** Companies that offer BNPL may gain a competitive edge over those that don't, attracting more customers.
- **Customer Loyalty:** Providing flexible payment options can enhance customer satisfaction and loyalty, leading to repeat business.
- **Data Insights:** BNPL providers can gather valuable data on consumer spending habits, preferences, and trends, which can inform marketing strategies and product offerings.

Disadvantages for Companies:

- **Increased Risk:** Offering BNPL carries the risk of non-payment or default, particularly if proper risk assessment and credit checks are not conducted.
- **Transaction Fees:** BNPL providers typically charge merchants transaction fees for using their services, which can eat into profit margins.
- **Dependency on Third-Party Providers:** Companies relying on third-party BNPL services may face challenges if the provider changes terms or discontinues services.
- **Regulatory Scrutiny:** BNPL services are subject to regulatory oversight, and companies must comply with relevant consumer protection laws and regulations.
- **Brand Reputation:** Negative consumer experiences, such as billing errors or disputes, can tarnish a company's reputation, affecting customer trust and loyalty.

BUY NOW PROS

- Get what you want RIGHT NOW.
- LOWER INTEREST than traditional financing.
- EASIER TO QUALIFY than a credit card.

PAY LATER CONS

- Leads to OVERSPENDING
- Take on another MONTHLY PAYMENT
- Missing a payment leads to FEES and LOWER CREDIT SCORE

| | Pros | Cons |
|--|---|--|
|  Buy | <ul style="list-style-type: none"> • Ability to monetize existing merchant relationships • Faster time to market with no need build from scratch • Potentially lower investment to enter the market • Presents upselling / cross-selling opportunities with merchants | <ul style="list-style-type: none"> • High investment of time and resources for business development • Higher operating cost due to fees charged by platform provider • Higher vendor management effort |
|  Build | <ul style="list-style-type: none"> • Easier customization • Complete control • Reduced data sharing concerns • Easier to scale to credit card based offering | <ul style="list-style-type: none"> • Significantly higher initial investment • Increased time to market • High investment of time and resources for business development |
|  Partner | <ul style="list-style-type: none"> • Allows entry to market with minimal investment • Access to existing retail partners of BNPL partner • Access to a larger customer base • Merchant integration and relationship is managed by partner | <ul style="list-style-type: none"> • Restricts banks from cross-selling and upselling opportunities • Low brand visibility • Growth potential is dependent on partner |
|  Join marketplace | <ul style="list-style-type: none"> • Greater consumer access • Increased brand presence • Significantly lower investment • Faster route to the market • Greater control over underwriting | <ul style="list-style-type: none"> • Expected to lead to a price war between the participating lenders • Low cross-selling/upselling opportunity with merchants • Growth potential is dependent on marketplace adoption |

Sources :

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